

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Barry County Substance Abuse Services	County Barry
Audit Date 9/30/05	Opinion Date 12/13/05	Date Accountant Report Submitted to State: 3/3/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

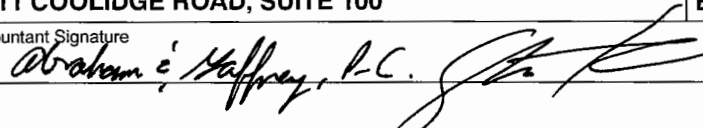
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) ABRAHAM & GAFFNEY, P.C.			
Street Address 3511 COOLIDGE ROAD, SUITE 100		City EAST LANSING	State MI
		ZIP 48823	
Accountant Signature 			Date 2/27/06

**Barry County Substance Abuse Services
Hastings, Michigan**

FINANCIAL STATEMENTS

September 30, 2005

Barry County Substance Abuse Services

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Barry County Substance Abuse Services
Hastings, Michigan

We have audited the accompanying component unit financial statements of the governmental activities and the major fund of the Barry County Substance Abuse Services, a component unit of Barry County, Michigan as of September 30, 2005, which collectively comprise the Service's basic financial statements as listed in the table of contents. These component unit financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities and the major fund of the Barry County Substance Abuse Services as of September 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 13, 2005, on our consideration of Barry County Substance Abuse Services' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents are not a required part of the financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the component unit financial statements that collectively comprise the Barry County Substance Abuse Services financial statements. The other supplementary information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the component unit financial statements of the Barry County Substance Abuse Services. Such information has been subjected to the auditing procedures applied in the audit of the component unit financial statements and, in our opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 13, 2005

Barry County Substance Abuse Services

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2005

This section of the annual financial statements, titled Management's Discussion and Analysis, represents the administration's review of the Agency's financial performance during the fiscal year ended September 30, 2005, and is a requirement of GASB 34. The Management's Discussion and Analysis is intended to be read in conjunction with the agency's financial statements.

Generally accepted accounting principles (GAAP) according to GASB 34 require the reporting of two types of financial statements: Government-wide financial statements and Fund Level financial statement.

Financial Highlights

- The assets of the agency exceeded its liabilities at September 30, 2005, by \$59,699 at the government-wide level. Of this amount, \$58,099 (unrestricted net assets) may be used to meet the agency's ongoing obligations.
- The agency's total net assets decreased by \$8,783 as a result of this year's operations.
- As of September 30, 2005, the agency's governmental fund reported an ending fund balance of \$77,574, a decrease of \$5,613.
- As of September 30, 2005, the unreserved and undesignated fund balance was \$77,574.

Overview of the Financial Statements

Barry County Substance Abuse Services basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements: The government-wide financial statements provide information about the activities of the entire agency. They present an overall view of the agency's finances, reporting the assets and liabilities on the fiscal year ended September 30, 2005.

The statement of net assets presents information on all of the Barry County Substance Abuse Services assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the agency is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during fiscal year 2004/05. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows.

Barry County Substance Abuse Services program is supported by intergovernmental revenues, governmental grants, fees and charges for services, and other local and miscellaneous revenues. The governmental activities of the agency are all considered health and welfare programs. Barry County Substance Abuse Services does not operate any programs that are intended to recover all or a significant portion of their costs through user fees and charges.

The government-wide financial statements include only financial information related to Barry County Substance Abuse Services.

Fund Financial Statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Barry County Substance Abuse Services uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Barry County Substance Abuse Services operates with one fund, which is considered a governmental fund.

Barry County Substance Abuse Services

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2005

Governmental Funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. In addition to the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balance the Agency has provided reconciliations to facilitate the comparison between governmental funds and governmental activities.

Barry County Substance Abuse Services adopts an annual appropriated budget for its Special Revenue Fund. A budgetary comparison statement has been provided for this fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages (1-6) of this report.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 7-15 of this report.

Governmental-wide Financial Analysis: As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Barry County Substance Abuse Services, assets exceeded liabilities by \$59,669 at September 30, 2005.

The following summarizes the net assets as of September 30, 2004 and 2005:

	Condensed Statement of Net Assets as of September 30,	
	<u>2004</u>	<u>2005</u>
Assets		
Current assets	\$ 98,981	\$ 96,963
Noncurrent assets	<u>19,303</u>	<u>16,890</u>
Total assets	118,284	113,853
Liabilities		
Current liabilities	31,965	37,617
Noncurrent liabilities	<u>20,280</u>	<u>16,567</u>
Total liabilities	<u>52,245</u>	<u>54,184</u>
Net Assets		
Invested in capital assets net of related debt	1,800	1,570
Unrestricted	<u>64,239</u>	<u>58,099</u>
Total net assets	<u>\$ 66,039</u>	<u>\$ 59,669</u>

Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) were \$58,099 as of September 30, 2005.

Barry County Substance Abuse Services

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2005

For the fiscal year ended September 30, 2004 and 2005, the government-wide results of operations were:

	Condensed Statement of Activities Year Ended September 30,	
	<u>2004</u>	<u>2005</u>
Program revenues		
Charges for services	\$ 201,264	\$ 201,313
Operating grants and other/contributions	344,928	382,411
General revenue		
Miscellaneous	<u>11,567</u>	<u>4,156</u>
Total revenues	557,759	587,880
Total Program expenses	<u>514,960</u>	<u>596,663</u>
Change in net assets	\$ <u>42,799</u>	\$ <u>(8,783)</u>

For the year ended September 30, 2005 charges for services remained stable.

Total expenditures increased approximately 16 percent during FY2005 compared to last year due increases in costs including insurance premium costs, retirement benefit costs, and added staffing costs required to meet demand.

Financial Analysis of the Government's Fund

As noted earlier, Barry County Substance Abuse Services uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Fund: The focus of Barry County Substance Abuse Services governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Barry County Substance Abuse Services financing requirements. In particular, unreserved-undesignated fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, Barry County Substance Abuse Services governmental fund reported an ending fund balance of \$77,574, a decrease of \$5,613 in comparison with the prior year.

As a measure of the governmental fund's liquidity, it may be useful to compare unreserved fund balance, total fund balance, and unreserved-undesignated fund balance to total fund expenditures. Unreserved-undesignated fund balance/total fund balance represents approximately 13 percent of total fund expenditures, as compared to 16 percent at the end of FY2004.

Capital Asset and Debt Administration

Capital Assets: Barry County Substance Abuse Services utilizes Barry County's capital asset policy threshold of \$5,000 to record all capital assets. At the end of the fiscal year, the Service had \$16,890 invested in furniture and fixtures (net of accumulated depreciation).

Barry County Substance Abuse Services

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2005

Long-term Obligations: The agency has long-term obligation related to compensated absences (e.g., unused vacation and personal leave) and a capital lease entered into in FY2004 for furniture and fixtures. The capital lease obligation was issued in FY2004 for the above noted furniture and fixtures. \$4,596 in principal payments were made on this lease during the current year leaving a balance outstanding at September 30, 2005 of \$15,320. The total liability for compensated absences at September 30, 2005 was \$19,475. This obligation increased by \$2,940 in the current year. A detailed description of long-term debt is presented in Note D.

Economic Factors and Next Year's Budget and Rates

FY05 saw the implementation of additional Women's Specialty Program services and continued involvement in evolving drug court operations in Barry County. The Agency has remained an active participant in Barry County Drug Court presided over by Judge James Fisher and Barry County Juvenile Drug Court presided over by Judge William M. Doherty, and planning assumes the continued strong involvement of agency personnel in all aspects of drug court services.

Additionally, the organization is committed to developing and funding both a methamphetamine treatment track and a relapse prevention and treatment service during the coming year for implantation during autumn 2006.

Planning for FY2006 was based on an assumption that demand would continue at current rates for all services. Staffing levels, thus, remain the same and salaries and fringe benefits are based on present staffing with adjustment for known increases in fringe benefits and assumed increases in salaries.

Since an overall revision of the salary schedule is not contemplated, increases to salaries are based on awards for annual service. The planning base for these increases was 3 percent as has historically been the case.

Fringe benefit cost increase estimates were known at the time of budget development and are included in FY2006 planning: employee health insurance premiums and retirement plan payments increased markedly for the coming year.

Revenues estimates are based on governmental grants projected prior to budget development. A cautionary note was sounded at year-end that the State of Michigan's Office of Management and Budget has required that local grant funding provided through the Convention Facilities Tax must be managed through Regional Coordinating Agencies using identifiable service delivery. Such a system could appreciably alter the Agency's planned use of Convention Facilities Tax funding under some implementation scenarios and result in revised budgets.

Rates for assessment services have been increased in an effort to increase the expensing of such services through charges for services as intended under original Michigan legislation. Planning assumes that this increase has limited effect on demand for assessment services.

Contacting Barry County Substance Abuse Financial Management

This financial report is designed to provide our citizens, customers, taxpayers, supporters and creditors with a general overview of Barry County Substance Abuse Services finances and to show accountability for the money it receives. If you have any questions, contact the Executive Director, Barry County Substance Abuse Services, 206 W. Court St., Suite 104, Courts and Law Building, Hastings, MI 49058 or call 877-489-9084.

BASIC FINANCIAL STATEMENTS

Barry County Substance Abuse Services

STATEMENT OF NET ASSETS

September 30, 2005

	Governmental Activities
ASSETS	
Current assets	
Cash	\$ 56,874
Accounts receivable	14,842
Due from state	<u>25,247</u>
Total current assets	96,963
Noncurrent assets	
Capital assets, net of accumulated depreciation	<u>16,890</u>
TOTAL ASSETS	113,853
LIABILITIES	
Current liabilities	
Accounts payable	2,562
Accrued liabilities	16,827
Current portion of capital lease payable	4,596
Current portion of compensated absences	<u>13,632</u>
Total current liabilities	37,617
Noncurrent liabilities	
Capital lease payable	10,724
Compensated absences	<u>5,843</u>
Total noncurrent liabilities	<u>16,567</u>
TOTAL LIABILITIES	<u>54,184</u>
TOTAL NET ASSETS	
Invested in capital assets, net of related debt	1,570
Unrestricted	<u>58,099</u>
TOTAL NET ASSETS	<u>\$ 59,669</u>

See accompanying notes to financial statements.

Barry County Substance Abuse Services

STATEMENT OF ACTIVITIES

Year Ended September 30, 2005

Functions/Programs	Expenses	Program Revenues		Net (Expense) and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Health and welfare	<u>\$ 596,663</u>	<u>\$ 201,313</u>	<u>\$ 382,411</u>	\$ (12,939)
General revenues:				
Miscellaneous				<u>4,156</u>
Change in net assets				(8,783)
Net assets, beginning of the year				<u>68,452</u>
Net assets, end of the year				<u>\$ 59,669</u>

See accompanying notes to financial statements.

Barry County Substance Abuse Services
GOVERNMENTAL FUND BALANCE SHEET

September 30, 2005

	<u>Special Revenue</u>
ASSETS	
Cash	\$ 56,874
Accounts receivable	14,842
Due from state	<u>25,247</u>
TOTAL ASSETS	<u><u>\$ 96,963</u></u>
LIABILITIES AND FUND BALANCES	
LIABILITIES	
Accounts payable	\$ 2,562
Accrued liabilities	<u>16,827</u>
TOTAL LIABILITIES	19,389
FUND BALANCE	
Unreserved - undesignated	<u>77,574</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 96,963</u></u>

See accompanying notes to financial statements.

Barry County Substance Abuse Services

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

September 30, 2005

Total fund balance - governmental funds **\$ 77,574**

Amounts reported for the governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	24,129	
Accumulated depreciation is	<u>(7,239)</u>	
		16,890

Long-term liabilities are not due and payable in the current period and
therefore are not reported in the Governmental Funds Balance Sheet.
Long-term liabilities at year-end consist of:

Capital lease payable	(15,320)	
Compensated absences	<u>(19,475)</u>	
		<u>(34,795)</u>

Net assets of governmental activities **\$ 59,669**

See accompanying notes to financial statements.

Barry County Substance Abuse Services

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUND

Year Ended September 30, 2005

REVENUES

Intergovernmental	
Federal grants	\$ 242,183
State grants	55,503
Local grants	84,725
Charges for services	201,313
Other	<u>4,156</u>

TOTAL REVENUES	<u>587,880</u>
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EXPENDITURES

Health and welfare	
Treatment	337,527
Prevention	125,206
Women specialty	61,080
Assessment	49,893
Methamphetamine task force	<u>19,787</u>

TOTAL EXPENDITURES	<u>593,493</u>
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EXCESS OF REVENUES (UNDER) EXPENDITURES	(5,613)
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Fund balance, beginning of year	<u>83,187</u>
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Fund balance, end of year	<u><u>\$ 77,574</u></u>
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See accompanying notes to financial statements.

Barry County Substance Abuse Services

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE
IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended September 30, 2005

Net change in fund balance - total governmental funds \$ (5,613)

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, this amount is:

Depreciation expense (4,826)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Capital lease principal retirement 4,596

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Increase in accrued compensated absences (2,940)

Change in net assets of governmental activities \$ (8,783)

See accompanying notes to financial statements.

Barry County Substance Abuse Services

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Barry County Substance Abuse Services (the Agency) was established in 1976 under the charter of Barry County Board of Commissioners, to develop, promote and support programs in substance abuse prevention and treatment. The Barry County Substance Abuse Service activities are overseen by a nine (9) member board of Directors of which three (3) members are County Commissioners and six (6) members are from the community at large. Much of Barry County Substance Abuse Services' funding comes from a contract with Kalamazoo Human Service Department, Substance Abuse Services, which is charged with funding and overseeing services in Barry, Branch, Kalamazoo, and St. Joseph Counties.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity*; and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements are exclusive presentations of the financial condition and results of operations of the Barry County Substance Abuse Services. The Agency is considered a component unit of Barry County, Michigan and is blended in Barry County's (the Primary Government) financial statements. A copy of the County's audited financial statements may be obtained at the County Courthouse in Hastings, Michigan.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the Government-wide statements) present information for the Service as a whole.

The statement of activities presents the direct functional expenses of the Agency and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all interest and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the Agency.

FUND FINANCIAL STATEMENTS

The Operating fund is presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of this fund present increases (i.e., revenues) and decreases (i.e., expenditures) in net current assets.

The major fund of the Agency is:

- a. The Operating (Special Revenue) Fund is the general operating fund of the Agency. It is used to account for all financial resources.

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus - continued

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues, which are considered measurable but not available, are recorded as a receivable and deferred revenue. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

5. Budgets and Budgetary Accounting

The Special Revenue Fund budget shown in the financial statements was prepared on the same modified accrual basis used to reflect actual results. The Agency employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. The Agency prepares the proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and resources to finance them.
- b. Prior to October 1, the budget is legally enacted through board approval.
- c. The budget is legally adopted at the total expenditure level; however, they are maintained at the account level for control purposes.
- d. Budgeted amounts are reported as originally adopted or amended by the Agency during the year.

6. Cash

The Agency operated out of a pooled account which the County pools cash resources of various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest bearing securities and disclosed as investments when present.

7. Receivables

Receivables consist of amounts due from governmental units for various programs and accounts receivable related to charges for services.

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Capital Assets

Capital assets include furniture and fixtures and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Furniture and fixtures	5 years
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9. Long-Term Liabilities

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

10. Compensated Absences

In accordance with personnel policies, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the personnel policies handbook.

Vested vacation and sick leave earned as of September 30, 2005, including related payroll taxes, is recorded in the government-wide financial statements.

11. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

12. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

Barry County Substance Abuse Services

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE B: CASH

In accordance with Michigan Compiled Laws, the Agency is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Cash on the balance sheet consists of the following:

Deposits with Barry County common cash pool account	<u>\$ 56,874</u>
---	------------------

The Agency's bank deposits at September 30, 2005, are composed of the following:

<u>Carrying Amount</u>	<u>Bank Balance</u>
<u>\$ 56,874</u>	<u>\$ 56,874</u>

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of September 30, 2005, the Agency did not have any investments that would be subject to rating.

Barry County Substance Abuse Services

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE B: CASH - CONTINUED

Interest rate risk

The Agency has not adopted a policy that indicates how the Agency will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

Concentration of credit risk

The Agency has not adopted a policy that indicates how the Agency will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Agency's investment in a single issuer.

Custodial credit risk

The Agency has not adopted a policy that indicates how the Agency will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

The deposits with Barry County in the common pooled cash account in the amount of \$56,874 cannot be categorized due to being combined with other County funds.

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2005 was as follows:

	Balance Oct. 1, 2004	Additions	Deletions	Balance Sept. 30, 2005
Governmental activities				
Furniture and fixtures	\$ 24,129	\$ -	\$ -	\$ 24,129
Less accumulated depreciation for:				
Furniture and fixtures	(2,413)	(4,826)	-	(7,239)
Capital assets, net	<u>\$ 21,716</u>	<u>\$(4,826)</u>	<u>\$ -0-</u>	<u>\$ 16,890</u>

Depreciation expense of \$4,826 was included on the statement of activities under the "Health and welfare" function.

NOTE D: LONG-TERM DEBT

The following is a summary of the changes in long-term debt (including current portion) of the Agency for the year ended September 30, 2005:

	Balance Oct. 1, 2004	Additions	Deletions	Balance Sept. 30, 2005	Amounts Due Within One Year
Capital lease	\$ 19,916	\$ -	\$ 4,596	\$ 15,320	\$ 4,596
Compensated absences	<u>16,535</u>	<u>2,940</u>	<u>-</u>	<u>19,475</u>	<u>13,632</u>
	<u>\$ 36,451</u>	<u>\$ 2,940</u>	<u>\$ 4,596</u>	<u>\$ 34,795</u>	<u>\$ 18,228</u>

Barry County Substance Abuse Services

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE D: LONG-TERM DEBT - CONTINUED

Compensated Absences

In accordance with Agency personnel policies, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their personnel policies handbook.

The dollar amount of these vested rights including related payroll taxes, amounted to \$11,278 and \$8,197 for vacation and sick leave, respectively, at September 30, 2005. This amount, \$19,475, has been reported as a current and noncurrent liability, based on management's determination, in the government-wide financial statements.

Capital Lease

The Agency has entered into one (1) lease purchase agreement, under act 99 PA of 1933, as amended, to finance the acquisition of office furniture and equipment. The liability for the office furniture and equipment is recorded in the government-wide financial statements. The cost of the office furniture and equipment amounted to \$24,129. This noninterest bearing capital lease has been recorded at the present value of the future minimum lease payments as of the date of their inception. This lease qualifies as a capital lease for accounting purposes because substantially all of the benefits and risks inherent in the ownership of the property rest with the Agency.

Commitments under this lease agreement (with interest at 0%) provide for the minimum annual payments as follows:

<u>Years Ending</u> <u>September 30,</u>	<u>Principal</u>
2006	\$ 4,596
2007	4,596
2008	4,596
2009	<u>1,532</u>
	<u>\$ 15,320</u>

NOTE E: OPERATING LEASE

The Agency is obligated under a noncancelable vehicle lease expiring August 2007. Vehicle rent expense related to this operating lease was \$3,817 for the year ended September 30, 2005. Future minimum lease payments are as follows:

<u>Years Ending</u> <u>September 30,</u>	
2006	\$ 3,817
2007	<u>3,182</u>
	<u>\$ 6,999</u>

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE F: EMPLOYEE RETIREMENT SYSTEM

The Agency is included within the County's retirement plan and the County participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple employer public retirement system. MERS is authorized and operated under State law, Act 135 of the Public Acts of 1945, as amended. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917. All full-time County employees are covered by the retirement system with exception of the Road Commission employees. The Road Commission employees are covered under a separate retirement plan. The retirement plan also includes employees that work for County departments who are excluded from the County's combined financial statements. The excluded departments (component units) that are in the plan include the Barry County Medical Care Facility, Barry County Transit, and Barry County Community Mental Health Services.

The benefits and conditions outlined below are for general information only. Public Act 427 of 1984, as amended, covers the benefits and conditions of the Municipal Retirement systems.

Normal Retirement:

Age 50 with 25 or more years of credited service

Age 55 with 15 or more years of credited service

Age 60 with 10 or more years of credited service

Mandatory Retirement: None

Deferred Retirement:

The termination of membership before age 60, other than by retirement or death, after 10 years of credited service is considered a deferred retirement. Retirement allowance begins upon application and satisfaction of normal retirement requirements. The retirement allowance is computed in the same manner as a service retirement with the applicable benefit program being determined as of the date of termination of membership.

Rights to an allowance are forfeited if the member's accumulated contributions are withdrawn.

Benefit allowances are computed based on the applicable criteria as detailed within the plan. Death and disability benefits are also provided.

Funding Policy

Covered employees can contribute between 0% and 10% of their annual salary to the retirement system. Employees hired prior to 1985 may be allowed to contribute 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200. The County is required to contribute the remaining amounts necessary to fund the system.

Barry County Substance Abuse Services

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE F: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Annual Pension Cost

For the year ended December 31, 2004, the County's annual pension cost of \$987,062 for the plan was equal to the County's required contribution. The annual required contribution was determined as part of an actuarial valuation of the plan as of December 31, 2003, using the entry actual age cost method. Significant actuarial assumptions used in determining the pension benefit obligation include (1) a rate of return on the investment of present and future assets of 8.0%, (2) projected salary increases of 5% per year compounded annually, attributable to inflation, (3) additional projected salary increases ranging from 0.0% to 4.2% per year, depending on age, attributable to seniority/merit. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit.

Three (3) year trend information

	Year Ended December 31,		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Actuarial value of assets	\$ 19,386,651	\$ 21,025,746	\$ 22,817,148
Actuarial accrued liability (AAL) (entry age)	27,151,679	29,580,622	33,226,393
Unfunded AAL	7,765,028	8,554,876	10,409,245
Funded ratio	71%	71%	69%
Covered payroll	10,625,853	11,267,166	11,851,341
UAAL as a percentage of covered payroll	73%	76%	88%
Annual pension cost	625,915	872,599	987,062
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

The Agency's annual pension contribution was \$32,057.

NOTE G: RISK MANAGEMENT

The Agency, as a fund of Barry County, is protected from losses as described in the note captioned "Risk Management" within the County's Annual Financial Report.

NOTE H: RELIANCE ON FUNDING SOURCES

The Agency receives a majority of its support from the County of Kalamazoo substance abuse program, State, and local grant revenues. A significant reduction in the level of this support, if it were to occur, would have an effect on the Agency's programs and activities.

Barry County Substance Abuse Services

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE I: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

During the year ended September 30, 2005, the Agency incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
Treatment	\$ 324,475	\$ 337,527	\$ 13,052
Prevention	124,274	125,206	932
Women Specialty	58,036	61,080	3,044

REQUIRED SUPPLEMENTARY INFORMATION

Barry County Substance Abuse Services

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - SPECIAL REVENUE FUND

Year Ended September 30, 2005

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Intergovernmental				
Federal grants	\$ 198,388	\$ 233,444	\$ 242,183	\$ 8,739
State grants	46,535	54,759	55,503	744
Local grants	83,201	73,366	84,725	11,359
Charges for services	184,464	200,578	201,313	735
Other	15,920	16,212	4,156	(12,056)
TOTAL REVENUES	528,508	578,359	587,880	9,521
EXPENDITURES				
Health and welfare				
Treatment	286,133	324,475	337,527	(13,052)
Prevention	133,348	124,274	125,206	(932)
Women specialty	58,036	58,036	61,080	(3,044)
Assessment	50,991	50,991	49,893	1,098
Methamphetamine task force	-	20,583	19,787	796
TOTAL EXPENDITURES	528,508	578,359	593,493	(15,134)
EXCESS OF REVENUES (UNDER) EXPENDITURES	-0-	-0-	(5,613)	(5,613)
Fund balance, beginning of year	83,187	83,187	83,187	-0-
Fund balance, end of year	\$ 83,187	\$ 83,187	\$ 77,574	\$ (5,613)

OTHER SUPPLEMENTARY INFORMATION

Barry County Substance Abuse Services

Special Revenue Fund

SCHEDULE OF EXPENDITURES BY PROGRAM

Year Ended September 30, 2005

	<u>Treatment</u>	<u>Prevention</u>	<u>Women Specialty</u>
EXPENDITURES			
Salaries and wages	\$ 228,635	\$ 79,068	\$ 28,488
Payroll taxes and other fringe benefits	<u>71,974</u>	<u>24,067</u>	<u>13,791</u>
Total salaries and related expenditures	300,609	103,135	42,279
Travel	1,407	2,797	1,610
Supplies and materials	7,939	6,926	5,642
Contracted services	14,976	5,785	3,687
Other	<u>12,596</u>	<u>6,563</u>	<u>7,862</u>
TOTAL EXPENDITURES	<u>\$ 337,527</u>	<u>\$ 125,206</u>	<u>\$ 61,080</u>

Assessment	Methamphetamine Task Force	Total
\$ 26,454	\$ 10,822	\$ 373,467
15,574	1,050	126,456
42,028	11,872	499,923
374	1,570	7,758
3,641	6,345	30,493
1,430	-	25,878
2,420	-	29,441
<u>\$ 49,893</u>	<u>\$ 19,787</u>	<u>\$ 593,493</u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Barry County Substance Abuse Services
Hastings, Michigan

We have audited the component unit financial statements of the Barry County Substance Abuse Services as of and for the year ended September 30, 2005, and have issued our report thereon dated December 13, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Barry County Substance Abuse Services' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one of more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to material weaknesses. However, we noted other instances involving control over financial reporting that we have reported to the management of Barry County Substance Abuse Services in a separate letter dated December 13, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Barry County Substance Abuse Services' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the Barry County Substance Abuse Services in a separate letter dated December 13, 2005.

This report is intended for the information and use of management and the Board of Directors of Barry County Substance Abuse Services and the pass-through entities and is not intended to be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 13, 2005

Principals

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MANAGEMENT LETTER

To the Board of Directors
Barry County Substance Abuse Services
Hastings, Michigan

As you know, we have recently completed our audit of the records of the Barry County Substance Abuse Services as of and for the year ended September 30, 2005. In connection with the audit, we feel that a certain change in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. This suggestion is a result of our evaluation of the internal control structure and our discussions with management.

1. Budgets should be adopted for all funds and monitored and amended when necessary.

As noted in the annual financial statements, budgeted activities of certain areas within the Agency exceeded the amounts appropriated.

The Michigan Public Act 621 of 1978, as amended, provides that the Agency shall not incur expenditures in excess of the amounts appropriated.

We suggest the Agency monitor expenditures against the adopted budget on a periodic basis, preferable monthly. Appropriate budget amendments should be made as needed.

2. Cash balance does not balance with County's general ledger.

During the course of our audit it was noted that the cash balance in the Agency's general ledger system did not agree with the County's general ledger.

We suggest that the Agency determine where this difference occurred and make an adjustment to the general ledger to have the two general ledgers agree.

3. The Board should amend the Agency's investment policy to address the disclosure requirements of GASB Statement No. 40.

During the course of our audit and through discussions with administration, it was noted that the Agency has not amended their investment policy to address the reporting requirements of GASB Statement No. 40.

Deposit and investment resources often represent significant assets of the Agency's governmental fund. These resources are necessary for the delivery of the Agency's services and programs. Effective for the year ended September 30, 2005, GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Agency's ability to provide services and meet its obligations as they become due.

We suggest the Board review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Such policies are required to be disclosed in the notes to the Agency's financial statements by GASB Statement No. 40.

This condition was considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the component unit financial statements, and this report does not affect our report on the component unit financial statements dated December 13, 2005.

This report is intended solely for the information of management and the Board of Directors of Barry County Substance Abuse Services and is not intended to be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 13, 2005